August 2, 2019

# Markets Fade US Nonfarm

- Job growth slightly missed expectations due to revisions
- Wage growth slightly beat expectations
- Hours worked suggest a weak Q3 for GDP
- Markets faded it all on volatile trade headlines

**U.S., Change in Non-farm Payrolls SA (m/m 000s) / UR (%) / y/y wage growth (%), June:**

Actual: 164 / 3.7 / 3.2

Scotia: 175 / 3.7 / 3.1

Consensus: 165 / 3.6 / 3.1

Prior: 193 / 3.7 / 3.1 (revised from: 224 / 3.7 / 3.1)

Markets could not have cared less about the overall suite of US labor figures. Rightly so. It would have taken a big surprise in either direction to possibly matter, and not even that would have been guaranteed. Instead, a slight downside to expectations for nonfarm payrolls due to negative revisions and a slight upside to wage growth cancel out the headline implications. Markets are much more concerned about forward-looking risks to trade policy and concomitant domestic activity and confidence readings.

The next nonfarm payrolls report may well risk a repeat of the May shocker and just ahead of the September FOMC. Fed fund futures contracts, however, are priced for cuts in September and December and so the risk to what is priced in the near-term is a Fed that digs in on modest accommodation. I still don't think this is a 50 in one shot kind of Fed. To this effect, post-nonfarm, we've already heard from Boston's dissenting Fed President Eric Rosengren who said it doesn't change his mind that there remains "no compelling" case for easing.

On net, job growth missed expectations by 42k. That was due to a 41k negative revision to the prior two months, of which -31k was taken out of the June estimate.

Wage growth slightly beat expectations at 3.2% y/y (3.1% prior and consensus). That doesn't change much other than to slightly reverse a modest slide from the peak of 3.4% wage growth back in February.

The unemployment rate was unchanged at 3.7% and is derived from the sister household survey that registered a job gain of 283k relative to 370k more entrants to the workforce. That was only enough to push the unemployment rate up by about five one-hundredths.

Hours worked fell by 0.2% m/m. The trend has been soft, including a rise of 0.2% the prior month, 0.1% back in May, and a 0.2% drop in April. At a quarterly annualized rate, hours worked are tracking a decline of 0.1% in Q2 based on just July and the Q2 average while assuming flat hours over the duration of the quarter in order to focus upon the effects of what we know so far. That's a reversal of the 0.6% rise in hours worked in Q2 (annualized) and the larger 1.8% gain in Q1. Given that GDP is hours worked times labour productivity, the weakening trend in hours worked is a negative for GDP growth.

By sector, services added 133k jobs and goods producing sectors added only 15k. Within goods, manufacturers continued to hire (+16k) and construction added 4k. Within services, business services were up 38k with only a 2k assist from

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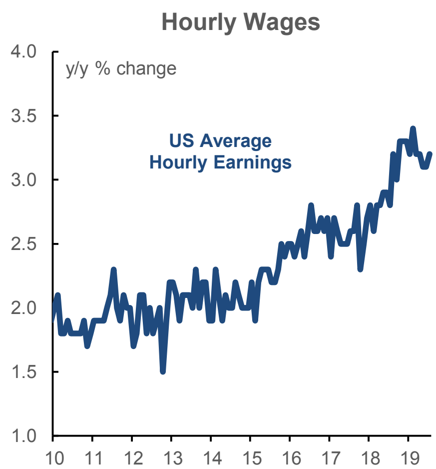

Sources: Scotiabank Economics, Bureau of Labor Statistics.

temp hiring so quality was decent in that category. The financial sector added 18k jobs despite layoff concerns. Education/health added 66k. Government hired 16k more workers for 30k in the past two months, almost all at the state and local level. Leisure/hospitality industries hired 10k more workers. IT fired 10k workers and retail let go 4k.

Full-time jobs were up 733k and part-time jobs fell by 450k according to the volatile household survey.